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RA - Mr. Moore

July 30, 1953

WE - Mr. Byington

Economic Aid to Italy

DeGasperi's failure, on Monday, to obtain parliamentary approval of his cabinet may result in his being asked to try again, or the designation of someone else to try to form a center or right center cabinet, or eventually, another general elections the outcome of which could not be foreseen. In any case, his defeat clearly represents a set-back for pro-American political forces in Italy and the internal and international programs they have supported. This justifies some second thoughts on what, under present circumstances, should be our attitude towards the US FY '54 aid program for Italy.

If you and Larry Vass have occasion to discuss, during the next week or two, aid allocations for Italy we recommend that, for the time being, you take the following position:

1) We see no reason at present for modification, on political grounds, of our projected end item delivery program;

2) We believe OSP contracts for Italy should be treated on the same basis as projected before the cabinet crisis;

3) We believe that plans for distributing economic assistance among Title I recipients should be made on the assumption that sometime before the end of FY '54 Italy will receive no less than the illustrative figure announced during the budget hearings (i.e. \$20 million for development of Southern Italy plus \$37.5 for the aircraft program) but that aid for the Southern Italy program might have to be "doubled" - and this fact prominently announced here and abroad - if, in the near future, DeGasperi succeeds in a second try to form a cabinet or if some other cabinet is formed which we wish to encourage, or if another general election is called sometime this autumn or early next spring. We recommend, further, that no economic assistance funds actually be allocated to Italy until the political situation becomes clearer. What we desire, in short, is to achieve, at this stage of planning and programming, the room for future flexibility which would permit, from readily available funds, an allocation of the above magnitude, i.e. \$20 - \$40 million plus the \$37.5 million, should that need arise. We recognize that, although the

development needs

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development needs of Southern Italy are enormous, a balance of payments justification for this Italian aid plan might be hard to defend. However, we believe that, properly timed and announced, an allocation, of \$40 million for Southern Italy - "doubling our program" - might give the marginal help required to rescue from disintegration a pro-western Italian policy in which we have invested billions.

The future political orientation of Italy may be at stake during forthcoming developments. If a democratic and pro-western Italy is lost, or if Italian politics should continue their drift towards division and impotence, the consequences for NATO, EDC, European integration, and future conduct of the cold war in Europe could be incalculable. Aid in the magnitudes above may be an effective means available for exerting US influence in such a way as to forestall or prevent that disaster. It would be a small price to pay.

cc: EUR - Mr. Bonbright
S/MSA- Mr. Newman
RA- Mr. Vass

EUR:WE:RWBarnett:emh

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